

Minutes for November 18, 2011

Local Government Advisory Committee (LGAC)

Attendees

Members: Alexandra Johnson (SAO), Christy Raske (SAO), Jerry Pettit (WACO), Dean Walz (WFOA), Jeff Monsen (CRAB), Jim Chase (WFOA), Jim Hendrickson (WMTA), Milene Henley (WACO), Teresa Camfield (WFOA), Rob Karlinsey (WCCMA), Sandy Langdon (WFOA), John Payne (WFOA), Kay Stevens (WCAA), Annette Creekpaum (Mason PUD)

Additional attendees: Scott Deviney (SAO), Kathy Streissguth (Clark County Fire and Rescue), Chris Johnson (Port of Anacortes), Chuck Pfeil (SAO)

Decisions of the State Auditor

No decisions required by the State Auditor.

Minutes

The LGAC meeting began at 10:00 am and was held in the Sunset Building, Olympia. The meeting was called to order by Christy Raske.

Approval of Minutes from April 26, 2011

Christy Raske asked if the members had reviewed the minutes and if they are ready for approval. Dean Walz moved and Jim Chase seconded the motion to approve the minutes. The minutes were unanimously approved.

BARS Update

Christy brought up the idea of paperless BARS manual and related correspondence. The SAO is proposing that the 2012 BARS update include a letter notifying that all BARS users will need to set up an account with Subscription Services to obtain future updates and other related correspondence. The SAO needs to reduce mailing and printing costs. Dean Walz asked that if we could send at least a one-page letter to BARS users

who are not on the subscription list in case they do not have internet. This will be considered.

Alexa provided a handout highlighting major changes in the BARS manual.

The following topics were presented and discussed during the meeting.

There is a new phone line designated with helping to distribute questions among the team member, so they can be answer quicker and the staff is utilized more efficiently.

Coding of federal grants was simplified removing the distinction between DHHS and other grants. Dean Walz expressed his concern regarding impact of this change on local governments in relation to current numbers used, if implemented prior to the other BARS re-structuring. Alexa stated that this change was presented to local governments during BARS/Grant classes and other presentation and was received with positive comments, so the SAO does not expect any problems in this area.

GASBS 62 which incorporated all FASB statements from before November 30, 1989 will change several note disclosures. The change is mostly related to providing more specific instructions to notes. Alexa highlighted the notes impacted by the new Statement. Also, the paragraph required by GASBS 20 was removed from the SSAP.

The requirements for interfund loans were revised and a requirement for reviewing the status of loans was added. The Committee suggested to add how frequent the reviews should be and agreed on annual reviews. Jerry Pettit was still concern about the City of Ellensburg accounting for internal investments incorrectly as loans and proposed to define the loans. He will forward to Christy a proposed definition of interfund loans. Jerry was also concerned with accounting and accounting for complex transactions the local governments are entering. Alexa responded that there is not much the BARS manual can help since the complex transactions should be accessed for accounting and reporting on individual basis do to their complexity and uniqueness. Dean Walz requested that there be an addition to the guidance in the BARS manual regarding Interfund loan, that the definition is greater than lay use of the word loan. Maybe by including bullet points of other items, noting that the list is not inclusive, and should at least include, debt such as bonds, notes and other lending instruments issued by the entity.

Alexa pointed out that Part 3, Chapter 4, Section C, *Interfund Utility Surplus Transfers* is not new guidance, but was moved from other part of BARS manual to be more visible.

A new guidance regarding reimbursements was added to all manuals.

The requirements regarding inventories were revised.

The section regarding cell phones was expanded and it contains requirements regarding credit cards. Alexa did not discuss this issue since it was on the agenda for Chuck.

The update will have many pages revised due to GASBS 63 which changed the title of *statement of net assets* to the *statement of position* and changed the equity section. The Statement introduced new elements of balance sheet - deferred outflows and inflows of resources.

Due to implementing the new version of on-line reporting option reporting instructions in Part 4 were revised.

There were some important changes regarding schedules. Schedule 04 and 05 were combined into one. Since they are tools to generate information for data base, they are designed to provide data in the simplest possible way to be downloaded to the SAO system. Dean Walz suggested reviewing the examples of fund since some in the examples may not be special revenue fund with the implementation of GASB 54, such as a parks or street fund. Teresa Camfield asked about reporting of the managerial funds on Schedule 04/05. Alexa will add clarification that the funds reported in the schedule should be in identical format as when reported in financial statements. Schedule 07, *Warrant Activities* which is used for audit purposes was expanded to include not only warrants but also other forms of disbursements. The change was done to provide auditors with a very useful audit tool. Schedule 11 was also changed for the same reasons and Schedule 12 was eliminated since some of the relevant information was incorporated into Schedule 11. Schedule 09 was expanded to include not only long-term debt and liabilities but also their short-term portion. This change will not have much impact on GAAP entities since they are required to disclose this information in their notes. It is a new requirement for cash basis entities and will help to give auditors data missing from their financial statements. It will also provide better data, so that Schedule 10 may be eliminated in the future. Dean suggested adding reference to the section talking about interfund loans in the line referring to them on Schedule 9. Schedule 16 has updated the section related to BABS interest subsidy payments.

Changes applicable only to cash basis manual include (1) new section related to capital assets, (2) removal of statement C-2 since all local governments will be required to use BARS manual chart of accounts and follow reporting requirements, and (3) exclusion of clearing funds from reporting requirements.

Local Government Finance Reporting System (LGFRS)

Christy provided a demonstration of the revised LGFRS. Currently, it includes only counties, cities, ports, and transits. After the new release in January 2012 it will include all local governments. It will include data for ten years (if available) of revenues, expenses, and fund balances. The old version included business rules, where some transactions were combined or eliminated to reduce double counting. This created confusion since the data did not agree with what the local governments reported. This new version will produce data as received by SAO, without elimination of transactions.

Client Portal

Scott Deviney from the SAO Team Audit Support shared with the Committee plans for a client portal. It will include log-ins for clients to resources with the SAO that will be secure. Previously, submissions to the SAO were anonymous. With the new portal, it will allow better information sharing, security, and customized resources. Some of the resources available through the portal will be: submission of annual reports, helpdesk questions, view and correct profile information, customized client resources and secure file transfers. It is expected the client portal will be available in 2012.

Miscellaneous Topics

Financial Guarantees - Chuck discussed the situation in Wenatchee where the City guaranteed debt for a public facility district (PFD). The PFD was not able to pay the debt and now the City will be held responsible. One issue surrounding this is the debt will put the City over their legal debt limit. The scenario is not unique and the GASB has undertaken a project addressing the reporting of financial guarantees. The project is in early stages, and the SAO will keep local governments updated as it progresses.

Private Use of Public Credits Cards - There have been local governments wishing to use public credit cards for personal use. The State Attorney General's Office has issued a recent informal opinion addressing this issue stating "a local government official or employee may not use a publically-issued credit card for personal purchases, even if the person pays off the card prior to the bill becomes due." The SAO will not hold local governments to this interpretation until 2012.

Audit Focus on Self Insurance - The SAO is focusing on self insurance programs in local governments. Chuck wants local governments to be aware

the auditors will be asking more questions pertaining to all kinds of self insurance (medical, property, unemployment, etc.). The SAO works closely with the Local Government Self-Insurance Program staff to be aware of potential changes or concerns. If they have any questions, local governments should contact their local audit manager.

Declining Financial Condition - Due to the downturn in the economy, there have been indications of local governments with going concern issues. In the past few years, there has been an increase in cities and towns where they have had declining fund balances or cash balances. The SAO is working with the State Treasurer to come up with some tools to identify local governments early on where the threat of default is imminent. The SAO will keep the LGAC informed of the progress of this project. Jerry Pettit asked for a list of potential governments or other information that may be helpful in his area. He also commented on increasing demands on local governments if comes to external financial reporting. Chuck pointed out that our Office sent several letters to standards setting and other bodies in this regard. Jerry asked if the letters can be forwarded to the LGAC. Chuck agreed to do that.

Meeting adjourned at 12:15 p.m.